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TAGS: PREL MNUC EAID KS KN

SUBJECT: MOFAT DELIVERS NONPAPER ON KIC EXPANSION

REF: A. SEOUL 634
 1B. SEOUL 1175

Classified By: A/DCM Joseph Y. Yun. Reasons 1.4 (b/d)

11. (C) In an April 23 meeting with A/DCM, MOFAT Director-General for North American Affairs Cho Byung-jae passed a nonpaper that says, given the February 13 "Initial Actions" agreement, the ROKG intends to resume efforts to expand development of the Kaesong Industrial Complex (KIC), which had been suspended since September 2006. The nonpaper states that the ROKG plans to announce a sale of 1.77 million square meters (437 acres) of KIC land at the end of April and to select tenant companies in late June, with the expectation that some firms could start factory operations as soon as year-end. The nonpaper, written in the form of talking points, also expresses ROKG appreciation for the USG's understanding. Cho opined that Unification Minister Lee Jae-joung on February 20 (ref a) had announced his view that resumption of the expansion plan should begin by late March or mid-April, so this plan should not be considered entirely new.

12. (C) A/DCM said he would convey the nonpaper to the Department. Speaking informally, however, he questioned the timing of the announcement. Given ROKG assertions that it wanted inter-Korean dialogue to remain "one-half step behind" progress in the Six-Party Talks, including Cho's earlier remarks that the ROKG had just linked rice aid with DPRK fulfillment of its denuclearization obligations (ref b), A/DCM expressed skepticism that a significant expansion of the KIC at this time was consistent. Cho replied that this plan would take time to implement and therefore could be reviewed later depending on DPRK actions. See paragraph 3 for the full text of the nonpaper.

TEXT OF NONPAPER

13. (U) The full text of the nonpaper titled "The Plan for the Sale of the Remaining Lots in the 1st Development Area at the Kaesong Industrial Complex" follows:

11. Overview

We plan to announce the sale of the remaining lots in the

first-stage developmental area.

--A total of 1.77 million square meters at the end of this April.

Originally, the sale of the lots was to be implemented in three steps from June 2006 until the end of 2007.

--However, the sales have been delayed by North Korea's missile launch and nuclear test.

Fortunately, with the efforts of and close cooperation between the participating countries in the Six-Party Talks, the agreement "Early Implementation Measures for September 19 Joint Declaration" was reached.

--Considering the agreement above and other circumstances calling for the early sales of the lots, we plan to announce the sale at the end of this April.

Many small and medium-sized companies, with intentions to move into the KIC, are requesting an early sale of the lots.

--With the completion of the construction of the infrastructure (electricity transformer station, water supply, and wastewater treatment facilities) in the first half of this year, the lot sale needs to be followed in the aspect of utilizing those facilities.

--Korea Land Corporation, the developer and host of the lot sale, has been continuously requesting the sale to begin while expressing its financial losses caused by the delay of the sub-division sales since last year.

After the public announcement of the lot sale at the end of this month, the tenant companies will be selected at the end of June through necessary procedures. It is expected that some companies could be able to start factory operations around the end of this year or at the beginning of next year.

12. The Detailed Plan for the Sale

The lot sale will be announced publicly in the main newspapers and on the website of Korea Land Corporation at the end of April.

--The total area: 1.77 million square meters.

--The lots on sale are the lots for factories (1.18 million square meters, 128 enterprises), apartment-style factory complex (1560,000 square meters, 7 apartment-style buildings), cooperation complexes (133,000 square meters, 9 complexes) and lots for foreign enterprises (110,000 square meters, 6 lots).

--Apartment-style factory complex has 7 apartment-style factory buildings, each housing 30-40 small companies.

--Cooperation complexes will house 3-4 companies for each complex with nine (9) complexes, so a total of 27 to 36 companies could move in.

--Leading enterprises are for those companies who need lots with minimum 30,000 square meters and have more than USD 7.52 million (7 billion won) as their capital fund. Also, a leading enterprise has the capacity to move into the KIC.

--Foreign enterprises: Foreign enterprises are those companies which are South Korean corporations. Also these enterprises should have more than USD 53,763 (50,000,000 Korean won) as an investment fund and foreign investors have more than 50 percent of share holdings with voting rights or 50 percent of the sum total of the investment.

The Holder of the Right for the Lot Sale: Korea Land Corporation (The Developer for the first stage development).

Post Schedules after the public announcement of the lot sale.

--Selection of the tenant companies: About 2 months after the public announcement of the lot sale.

--Factory construction for the tenant companies: Possible from the latter half of this year.

--Factory operation: At the earliest, some enterprises could start operating their factories from the end of this year or at the beginning of next year. All tenant companies will be able to start operations by 2009.

13. Taking Out of Materials Including Factory Equipment

Inbound and outbound products related to the KIC should not be used or transferred for other purposes and the transfer of the strategic material technology.

--In times of the transfer of the strategic material technology, South Korea will suffer the most. On this line of thought, we have established and are operating a prior and post control system for the thorough inspection of the cargo.

With active cooperation from the United States, we got an approval of EAR re-export related to the RFID system equipment and the communication equipment at the KIC.

If any production equipment for the tenant companies at the main complex of the first-stage developmental area should be regulated under the EAR, we will let the companies process their production equipment under the related procedures of EAR.

Please inform us if there is any change in the EAR regulations related to the possible progresses in the U.S.-North Korea relations.

14. The Cooperation Between South Korea and U.S.

With the close cooperation between South Korea and U.S., the project of developing the KIC has been implemented.

--We would like to express our appreciation for the understanding and help of the United States.

Throughout the further development process of the KIC, the South Korean government will have close discussions with the U.S. government on the transportation of cargo and share the related information. END NONPAPER.

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